

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

Applicant:	The President and Board of Trustees of Santa Clara College dba Santa Clara University (“The University”) 500 El Camino Real Santa Clara, CA 95053 Santa Clara County	Amount Requested: \$115,000,000	Date Requested: October 30, 2008
		Resolution Number: 264	
Facility Type:	Private University		
Project Site:	500 El Camino Real, Santa Clara, CA		
Accreditation:	Western Association of Schools and Colleges American Bar Association		
Use of Bond Proceeds: Bond proceeds will be used to refinance a taxable line of credit from Bank of America that was used to refund CEFA Series 2002B and 2006 bonds. In addition, the University intends to complete major renovations to Dunne, Swig, Nobili, Walsh, McLaughlin, Sanfilippo, St. Clare, Graham, Sobrato, Casa and Bellarmine Residence Halls. The proposed refinancing is expected to generate a net present value savings of approximately \$5 million.			
Type of Issue:	Negotiated public offering, 30-year maturity, fixed rate bonds		
Security Loan Provision:	Gross Revenue Pledge		
Credit Enhancement:	None		
Expected Credit Rating:	Aa3 (Moody’s)		
Senior Underwriter:	Banc of America Securities, LLC		
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP		
Environmental Benefits: The University is expected to incorporate several energy-efficient and environmentally beneficial design principals into its renovation and construction projects.			
Financial Overview: The University has recorded growth in revenues with moderate expense increases resulting in substantial total net asset increases. With this proposed additional debt, the University expects to maintain satisfactory leverage levels. University management anticipates the extended outlook to remain stable.			
<u>Estimated Sources of Funds (\$000):</u>		<u>Estimated Uses of Funds (\$000):</u>	
Par Amount of Bonds	\$115,000,000	Refinance Line of Credit	\$54,000,000
		Construction/Renovation	44,098,000
		Debt Service Reserve Fund	10,000,000
		Capitalized Interest	4,000,000
		Swap Termination Fee	2,000,000
		Financing Costs	<u>902,000</u>
Total Sources	<u>\$115,000,000</u>	Total Uses	<u>\$115,000,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$115,000,000 for Santa Clara University, subject to the bonds having at least an “A” category rating by a nationally recognized rating agency and meeting the standard bond issuance provisions for “A” rated debt.			

**STAFF SUMMARY AND RECOMMENDATION
BOND FINANCING PROGRAM**

SANTA CLARA UNIVERSITY (the “University”)

October 30, 2008
Resolution Number: 264

I. PURPOSE OF FINANCING:

The University plans to finance capital improvements to Dunne, Swig, Nobili, Walsh, McLaughlin, Sanfilippo, St. Clare, Graham, Sobrato, Casa and Bellarmine Residence Halls in order to attract and retain students in a competitive market for higher education in California. Student quality of life will be improved as a result of the upgrades, and safety will be enhanced (i.e. fire code and ADA compliance).

Additionally, the University is facing unanticipated and staggering financial burdens, associated with significant interest rate increases, due to recent dramatic changes in the auction rate and variable rate bond markets. Consequently, the University is seeking to quickly refund their debt to extricate themselves from untenable debt service obligations in order to position themselves with more affordable and stable rate structures. The proposed financing is expected to generate a net present value savings of approximately \$5 million.

Refinance Existing Debt..... 54,000,000

The University plans to refinance a taxable line of credit from Bank of America N.A. that was used to refund outstanding CEFA Series 2002B and 2006 bonds. The interim financing relieved the University from failed auction rates as high as 7.0% on the Series 2006 bonds, and resets as high as 7.75% on the Series 2002B insured variable rate demand bonds. The line of credit matures on December 31, 2008.

Renovation of Dunne and Swig Residence Halls 44,098,000

The University plans to upgrade and renovate Dunne, Swig, Nobili, Walsh, McLaughlin, Sanfilippo, St. Clare, Graham, Sobrato, Casa and Bellarmine Residence Halls. The upgrades and renovations include the following:

- update bathroom fixtures
- installation of a new roof
- upgrade interior plumbing, electrical and data lines
- install new flooring, windows and paint
- upgrade HVAC equipment
- purchase furniture and equipment

In addition, the University plans to use approximately \$10 million of bond proceeds to reimburse the University for amounts expended in 2007 for renovations of Campisi Residence Hall.

Environmental Benefits:

- Use of low emission paints and building materials including carpeting and flooring
- Installation of double-glazed windows, replacing windows with more energy efficient styles
- Incorporate state-of-the-art technology for all its infrastructural systems (i.e. plumbing, lighting, HVAC systems) and as such will be energy-efficient.

<i>Debt Service Reserve Fund</i>	<i>10,000,000</i>
<i>Capitalized Interest</i>	<i>4,000,000</i>
<i>Swap Termination Fee</i>	<i>2,000,000</i>
<i>Financing Costs</i>	<u><i>902,000</i></u>
Cost of Issuance.....	\$902,000
Total Uses of Funds	<u>\$115,000,000</u>

II. FINANCIAL STATEMENTS AND ANALYSIS:

SANTA CLARA UNIVERSITY

Statement of Activities

Unrestricted (000's)

	Fiscal Year Ended June 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues:			
Tuition and fees	\$ 167,096	\$ 157,256	\$ 146,635
Contributions	2,696	9,884	1,932
Grant revenues	4,153	3,328	3,310
Income on investments	9,954	10,591	8,391
Investment gains, net	6,540	3,355	5,548
Other	8,408	9,270	8,636
Auxiliary activities	<u>22,417</u>	<u>19,418</u>	<u>18,002</u>
Total revenues	221,264	213,102	192,454
Net assets released from restrictions	<u>61,712</u>	<u>29,054</u>	<u>37,891</u>
Total revenues and other support	<u>282,976</u>	<u>242,156</u>	<u>230,345</u>
Expenses:			
Educational and general:			
Instruction	90,244	84,164	79,942
Research	3,206	2,752	3,004
Public service	1,820	1,663	1,532
Academic support	26,039	24,594	21,792
Student services	32,366	29,743	27,867
Institutional support	44,620	42,412	42,226
Scholarship and fellowships	<u>1,411</u>	<u>1,144</u>	<u>1,033</u>
Total educational and general	199,706	186,472	177,396
Auxiliary activities	<u>17,450</u>	<u>16,243</u>	<u>14,808</u>
Total expenses	<u>217,156</u>	<u>202,715</u>	<u>192,204</u>
Increase in unrestricted net assets from operations	65,820	39,441	38,141
Non-operating reinvested (spent) income and gains	26,381	22,103	16,929
Write down on fixed assets	(577)	(3,713)	-
Loss of defeasance of debt	-	(1,221)	-
Unrealized gain (loss) on interest rate swap	<u>(153)</u>	<u>1,225</u>	<u>-</u>
Increase in unrestricted net assets before change in accounting	91,471	57,835	55,070
Change in accounting for asset retirement obligations	-	(3,964)	-
Change in accounting for fair values of investments	<u>-</u>	<u>1,518</u>	<u>-</u>
	-	(2,446)	-
Increase in unrestricted net assets	91,471	55,389	55,070
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>467,279</u>	<u>411,890</u>	<u>356,820</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 558,750</u>	<u>\$ 467,279</u>	<u>\$ 411,890</u>

SANTA CLARA UNIVERSITY
Statement of Financial Position (000's)

	As of June 30		
	2007	2006	2005
ASSETS:			
Cash and cash equivalents	\$ 36,832	\$ 38,780	\$ 13,314
Contributions receivable, net	54,448	50,638	53,938
Student and other receivables	12,631	10,315	10,930
Inventories	405	353	292
Investments	833,415	699,259	595,149
Deposits in trust	8,274	25,782	102
Other assets	6,632	6,519	5,082
Plant facilities, net	398,147	359,713	330,409
TOTAL ASSETS	\$ 1,350,784	\$ 1,191,359	\$ 1,009,216
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable and accrued expenses	\$ 37,179	\$ 30,386	\$ 24,648
Deposits and deferred revenue	12,189	14,416	14,869
Amounts held on behalf of others	30,516	20,088	2,562
Annuity and trust obligations	8,953	4,553	4,396
Asset retirement obligation	4,145	4,428	-
Bonds and notes payable	172,309	175,987	151,742
U.S. government loan advances	6,620	6,723	6,892
TOTAL LIABILITIES	271,911	256,581	205,109
COMMITMENTS AND CONTINGENCIES:			
Net assets:			
Unrestricted	558,750	467,279	411,890
Temporarily Restricted	297,185	253,621	203,602
Permanently Restricted	222,938	213,878	188,615
TOTAL NET ASSETS	1,078,873	934,778	804,107
TOTAL LIABILITIES AND NET ASSETS	\$ 1,350,784	\$ 1,191,359	\$ 1,009,216

Financial Ratios:

	Proforma FYE June 30, 2007	2007	2006	2005
Debt service coverage (x)	5.72	9.42	6.68	6.74
Debt to expendable net assets (x)	0.26	0.21	0.25	0.26
Expendable net assets to operations (x)		3.94	3.56	3.20
Margin (%)		23	16	17

Financial Discussion

The University has recorded growth in revenues with moderate expense increases resulting in substantial total net asset increases.

The University continues to generate consistent operating results over the review period. Total revenues have increased from \$230 million in FY 2005 to \$282 million in FY 2007. This increase can be primarily attributed to an increase in enrollment and contribution revenues.

Net tuition and fees are the University's main source of revenue representing nearly 60% of total revenues in FY 2007 and have increased an average of 6% per year from FY 2005. The University has raised tuition in each of the past five years but University's management believes that its rates of tuition remain competitive to those of other private institutions of comparable quality. Auxiliary activities, which are generated principally from student room and board fees and from campus bookstore sales, increased from \$18 million in FY 2005 to \$22 million in FY 2007.

Additionally, the University exhibited a significant increase in net assets released from restriction in FY 2007. Net assets released from restriction in FY 2007 were \$61 million and \$29 million in FY 2006. This increase was due to the construction of a new learning commons, technology center, and a library and business school building, each of which were primarily funded by gifts.

Management has kept total operating expenses in line with revenue, which allowed the University to post positive operating results in FY 2007.

With this proposed additional debt, the University maintains satisfactory leverage levels. University management anticipates the extended outlook to remain stable.

The University's financial strength remains sound with over \$1 billion in total net assets. Contributing to this growth was a 19% increase in investments and a 22% increase in student and other receivables. Debt to expendable net assets has remained consistently low at a 0.26x. With this proposed financing, the proforma debt service coverage ratio remains solid at a 5.72x, indicating that the University can comfortably support additional debt.

III. BACKGROUND:

General:

Santa Clara University (the "University") is a non-profit, privately endowed, co-educational university offering 49 undergraduate, 21 graduate, and 4 professional degree programs. Enrollment for the fall term of the 2007-2008 academic year was 8,685 students of which approximately 60.6% were undergraduate students. More than 10,000 applicants a year compete for 1,200 openings in the freshman class. Undergraduate and graduate instruction is provided by the College of Arts and Sciences, the School of Engineering and the Thomas and Dorothy Leavey School of Business. The School of Law and the School Education and Counseling Psychology and Pastoral Ministries offer programs at the graduate level only.

Located in "Silicon Valley," a world center for high technology industries, the University is 46 miles south of San Francisco and a mile west of San Jose. Its 106-acre campus has more than 50 major buildings. These include 13 residence halls, four apartment complexes, the new Harrington Learning Commons, Sobrato Technology Center and Orradre Library, the new Lucas Hall housing the School of Business, Edwin A. Heafey Law Library, the Center for Performing Arts, the Thomas E. Leavey Activities Center, the Robert F. Benson Memorial Center, the de Saisset Museum, the Pat Malley Fitness and Recreation Center and other numerous classroom and administration buildings. In the heart of the tree-lined campus stands the historic Mission Santa Clara de Asis, established in 1777 by Franciscan missionaries as the eighth in a series of 21 California missions.

The Society of Jesus, or Jesuits, as the order is commonly known, founded the University at the site of the Mission in 1851 making it the oldest institution of higher education in California. Although the University remains affiliated with the Catholic Church and the Society of Jesus, it is governed by an independent Board of Trustees and welcomes persons of all religious persuasions as members of its student body, faculty and administration.

Administration:

The University is governed by a Board of Trustees composed of 45 members. The Bylaws require that the Board include ten members of the Board will be members of the Society of Jesus, including the President of the University and the Rector of the Jesuit Community at Santa Clara University (the "Rector"). Of the remaining 35 members, approximately twenty-five percent will be alumni. Approximately, one-third of the members are elected annually.

The Board of Trustees annually elects the officers of the corporation including the Chairman, Vice Chairman, Secretary and Treasurer for terms of one year. In addition to an Executive Committee, which acts for the Board between meetings, the Board or its Chair may establish Standing and Ad Hoc Committees as may be deemed advisable. The full Board meets three times a year.

Accreditation:

The University is fully accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges ("WASC"), the primary accrediting body for institutions of higher education in the western United States. The last WASC accreditation was in 2000 resulting in reaffirmation of accreditation. The University is currently in the process of preparing for the next WASC accreditation visits in 2009 and 2010.

It also has professional accreditation from the Accreditation Board for Engineering and Technology, the American Assembly of Collegiate Schools of Business (Undergraduate and Graduate Programs), the American Association of Museums, and the American Chemical Society. The University has been approved by the California State Commission on Teacher Credentialing and has been admitted to membership in the National Association of Schools of Music and the National Association of Schools of Theatre. The School of Law is accredited by the American Bar Association and the State Bar of California, and is a member of the Association of American Law Schools.

Academic Programs:

The University is organized into five major academic divisions:

College of Arts and Sciences is the largest academic unit on campus, with faculty that teach all of the courses in the University's undergraduate core curriculum. Its 30 departments and special programs offer two undergraduate degrees in 36 majors.

Thomas and Dorothy Leavey School of Business and Administration offers both undergraduate and graduate programs in Business including an Executive MBA program.

The *School of Engineering* offers both Bachelor of Science and Masters of Science programs in Civil Engineering, Computer Engineering, and Electrical Engineering, General Engineering, and Mechanical Engineering. It also offers Master of Science programs in Applied Mathematics, Engineering Management and Software Engineering. Ph.D. programs are offered in Electrical Engineering, Computer Engineering and Mechanical Engineering.

The *School of Law* offers a full range of courses dealing with federal, state and international law leading to the Juris Doctor Degree. Its day and evening divisions also provide students with opportunities to participate in overseas summer programs, internships and institutes, such as the Institutes and the Institute of International and Comparative Law.

The *School of Education, Counseling, Psychology and Pastoral Ministries* includes programs leading to the Master of Arts in Counseling, Counseling Psychology, Marriage, Family, and Child Counseling, Education, Educational Administration, and Special Education.

IV. OUTSTANDING DEBT (\$000):

<u>Issue Name</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 06/30/07</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing			
CEFA, Series 1999	\$82,181	\$82,354	\$70,067
CEFA, Series 2002A	21,600	19,916	\$19,470
CEFA, Series 2002B	10,390	9,790	-
CEFA, Series 2003A	23,600	15,219	\$11,975
CEFA, Series 2006	45,000	45,000	-
Other		30	-
Proposed			
CEFA, Series 2008		N/A	115,000
Totals		<u>\$172,309</u>	<u>\$216,512</u>

V. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Religious Due Diligence
- Legal Review
- Compliance with Section 94212(b) of the Education Code – California Environmental Quality Act

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve a Resolution in an amount not to exceed \$115,000,000 for Santa Clara University, subject to the bonds having at least an “A” category rating by a nationally recognized rating agency and meeting the standard bond issuance provisions for “A” rated debt.